

**MINUTES OF THE
JOINT CAPITAL FACILITIES & ADMINISTRATIVE SERVICES
APPROPRIATIONS SUBCOMMITTEE
TUESDAY, JANUARY 10, 2006, 9:00 AM.
Room W025, West Office Building, State Capitol Complex**

Members Present: Sen. Bill Hickman, Committee Co-Chair
 Rep. D. Gregg Buxton, Committee Co-Chair
 Pres. John Valentine
 Rep. Roger Barrus
 Rep. Ralph Becker
 Rep. DeMar “Bud” Bowman
 Rep. Stephen Clark
 Rep. Wayne A. Harper
 Rep. Fred R. Hunsaker
 Rep. Janice M. Fisher
 Rep. Michael T. Morley

Members Excused: Sen. Mike Dmitrich
 Sen. Peter Knudson

Staff Present: Steve Allred, Fiscal Analyst
 Jonathan Ball, Technology Analyst
 Todd Wardrop, Fiscal Analyst
 Bonnie Brinton, Committee Secretary

Public Speakers Present: D’Arcy Dixon Pignanelli, Executive Director, Executive Director's
 Office
 Ken Hansen, Director, Division of Administrative Rules
 Keith Stepan, Director, Division of Facilities Construction and
 Management
 Patricia Smith-Mansfield, Director, Division of Archives
 John Reidhead, Director, Division of Finance
 John Bennett, Project Manager, Utah Quality Growth Commission,
 Governor's Office of Planning and Budget
 Ben Lofgren, Chair, Quality Growth Commission, Governor's
 Office of Planning and Budget
 Douglas Richins, Director, Division of Purchasing
 Jeff Herring, Executive Director, Department of Human Resource
 Management
 Robert Johnson, Acting Director, Office of Debt Collection
 Margaret Chambers, Acting Director, Division of Fleet Operations

Stephen Hewlett, Acting Director, Division of Risk Management

Bruce Whittington, Assistant Director, Division of Facilities
Construction and Management

Robert W. Thompson, Administrator, Career Service Review
Board

Steve Fletcher, Chief Information Officer, Department of
Technology Services

Dan Frei, Governor's Office of Planning and Budget

David Hart, Executive Director, Capitol Preservation Board

A list of visitors and a copy of handouts are filed with the committee minutes.

Co-Chair Buxton called the meeting to order at 9:15 a.m.

1. Welcome and Introductions

Co-Chair Buxton welcomed Rep. Janice M. Fisher to the Legislature and introduced members of the committee. Todd Wardrop was introduced as the fiscal analyst for the Capitol Preservation Board.

2. Base Budget Overview

Steve Allred, Fiscal Analyst, presented an overview including all matters to come before the Subcommittee this session. He stated that the CFAS Base Budget is included in S. B. 1 and is available on the internet. Not including internal service funds, the Legislature appropriated a total FY 2006 subcommittee budget of \$400,866,900, with state funds (General Fund and School Funds) of \$216,185,900. After dropping one-time funds and adding base funds for DHRM and the required increase for Capital Improvements (AR&I), the Subcommittee's new state funds base for FY 2007 is \$194,869,600.

He summarized the Subcommittee's areas of responsibility which has been changed since last session as follows:

- Capitol Preservation Board
- Career Service Review Board*
- DAS - Appropriated Entities--Human Resources*
- DAS - Internal Service Funds

- Department of Technology Services*
 - Debt Service
 - Capital Facilities
- (*new)

Other budget issues the Analyst presented included:

- Intent Language - usually to make an appropriation nonlapsing
- LeRay McAllister Fund - whether to increase the appropriation
- Internal Service Funds - rates, FTE and vehicle counts
- Finance Mandated - Merging two line items into one
- Capital Budget - projects and funding sources
- Risk Management ISF - Transfer of excess retained earnings to the General Fund
- Debt Service - reallocation of savings to Capital developments Line Item

Co-Chair Hickman assumed the Chair.

3. Department of Administrative Services - Appropriated Budgets

a. Executive Director's Office (EDO) - D'Arcy Dixon Pignanelli

Ms. Pignanelli presented an overview of the divisions in this department. She stated the three goals of the Department are as follows:

- To be responsive and reliable to the customer.
- To remember we are a service industry and therefore only as good as our employees.
- To continually look for budget and process efficiencies.

The accomplishments of the Executive Director's Office were presented:

- Developed performance measures for all divisions to use as an internal management tool.
- DAS is assisting with the transfer of Division of ITS into the Department of DTS.

MOTION: Rep. Bowman moved to approve the minutes of the meeting held February 7, 2005. The motion carried unanimously with Pres. Valentine, and Reps. Becker and S. Clark absent for the vote.

Mr. Allred presented information regarding the Executive Director's Office. He stated

that this office has gradually declined in actual FTE since FY 2002 at 11.1 to 2005 at 7.0. Between FY 2002 and FY 2005 the office eliminated two internal auditors, one deputy director and one secretary. The office recently replaced its vacant deputy director position with a financial analyst, which should bring the FTE level back up to 8 in FY 2006.

Mr. Allred explained that during the 2005 General Session the Legislature eliminated the Office of Child Welfare Parental Defense. Approximately half of the former office's funds were reallocated to other programs, and the other half (\$125,000) was transferred to the EDO in order to issue a contract for providing the functions of parental defense. After a thorough request for proposal process, the Parental Defense Alliance of Utah (PDA) won the contract to provide training and communication services. The PDA is comprised of three attorneys. The contract is for two years. A contract oversight committee will meet quarterly with PDA to hear progress reports. The funding for this program is ongoing.

Regarding accountability, the Analyst stated that the primary responsibility of the EDO is administrative oversight. Administrative overhead should be kept as low as possible so more dollars can be allocated to service-providing programs.

The Analyst recommends a total FY 2007 base appropriation of \$1,006,300 with \$931,200 from the General Fund and \$75,100 from Dedicated Credits. The Analyst further recommends the Legislature approve the departmental GRAMA fees which have not changed from the prior fiscal year.

b. Division of Administrative Rules - Ken Hansen, Director

Mr. Hansen presented a brief overview of this division and listed the following accomplishments:

- Reliability and timeliness in publishing rules in the Utah State bulletin assists agencies to make rules effective on schedule and meet statutory mandates.
- Employ new methods of accessing rules information combined with the availability of information from eRules to deliver information to citizens, and state agencies including RSS news feeds listing rules open for public comment, emergency rules in effect, and notices of upcoming rule hearings.

Mr. Hansen responded to questions from committee members regarding agencies continuing to submit rules with errors. More than 45 percent of rules filed in FY 2005 required correction by the originating agency. If left unchecked, this could result in a need for additional employees at the division with the sole responsibility of reviewing rules for accuracy. The director stated that

because of the high number of new employees, the division is changing its methods of training which will target the excessive rate of errors.

While the Analyst doesn't recommend an appropriation for this issue at this time, the matter is serious enough to merit legislative consideration. He further recommends a total FY 2007 base appropriation of \$295,500 entirely from the General Fund and an additional \$12,000 in ongoing funds in FY 2007 for eRules software maintenance.

c. Division of Facilities Construction and Management (DFCM) - Keith Stepan, Director

Ken Nye, Government Affairs, DFCM, distributed a handout entitled "State-Funded Capital Development Projects."

Mr. Stepan announced that there had been a reorganization in this division with Robert Franson, Assistant Director, over construction and Bruce Whittington, Assistant Director, over maintenance. He presented a brief overview of this division and listed accomplishments as follows:

- Capital Development - \$360,000,000 in new building construction for 2005-2006.
- Capital Improvement: \$60,000,000 Repairs/Renovation of Existing Buildings.
- Managed 17 state-funded Capital Development projects appropriated for a total of \$235,000,000 with actual costs of \$228,000,000, a savings of \$7,000,000.
- The Capital Improvement group started and/or completed construction of 92% of the projects appropriated at \$48,000,000 within the 2004 fiscal year.
- The management group provides quality building maintenance service to state-owned buildings for a minimum of \$2.00 per square foot less than U.S. firms' average costs.

Mr. Allred stated that due to revenue shortfalls, the 2002 Legislature shifted \$3.1 million in this line item from the General Fund to project reserve funds. This was meant to be a temporary solution. In the 2005 General Session the Legislature restored \$1.1 million. He recommends a final restoration of \$1,092,000 in FY 2007. If the General Funds are restored, a concurrent reduction should be made to the Contingency Reserve Fund appropriation, since it would be a replacement.

Director Stepan stated that in 2005 the Legislature appropriated \$150,000 to DFCM for a contract to study the feasibility of moving the Draper prison. The study determined that the costs of moving the prison would exceed revenues by about \$370,000,000 and concluded that

it is not financially feasible to move the prison, and that the state should retain the excess property for future state use and pursue strategic master planning of the site.

Mr. Stepan discussed the new energy program. He stated that in coordination with the Legislature, the governor has rearranged the state's energy policy programs. Curtis Clark is now the energy manager for the state. The State Building Energy Efficiency Program was intended to save the state money and deposit part of the savings into the LeRay McAllister Fund. In reality, savings were overcome by increases in fuel and power rates and weren't readily identifiable in any particular fund for transfer to the McAllister Fund.

The Analyst reported that Rep. Hunsaker will present a bill in this session of the legislature to resolve this problem.

Mr. Stepan responded to questions from committee members regarding phase funding. Rep. Clark pointed out the loss of money because of delays in construction due to increased costs of labor and materials. Co-Chair Hickman and Pres. Valentine both agreed that phase funding would be beneficial to the state and discussed the possibility of putting it into place one year at a time on specific projects. Director Stepan stated his support for phase funding.

Mr. Allred explained that there is money available in the Reserve Fund. This fact is a testament to DFCM's management over the last four years. Balances accrue in these funds only when projects come in under budget or when bids are lower than expected. As expected, Project Reserve Funds have declined in FY 2006 due to projects costing more than expected. Contingency Reserve Funds, however, have increased because the division is keeping change orders to a minimum, mainly due to Value Based Procurement. If the Legislature follows the Analyst's recommendation to fund administrative costs with General Funds, excess Contingency reserve Funds could be appropriated for one-time capital projects.

The Analyst recommends a total FY base appropriation of \$4,435,400, with \$1,198,300 from the General Fund. The Analyst further recommends the Legislature appropriate an additional \$1,092,000 in ongoing General Funds beginning in FY 2007 to shift administrative costs away from project funds.

d. Division of Archives - Patricia Smith-Mansfield, Director

Ms. Smith-Mansfield presented a brief overview of the division. She stated that the division moved into the new State Archives building in October. This location contains the administrative offices, a state of the art automated storage and retrieval system, and a new

research room located at 300 S. Rio Grande.

The director gave a progress report on the digitization of records. In 2005 the Legislature appropriated \$119,600 in one-time funds for the division to purchase hardware and software to digitize the large collection of historically significant records and make them readily available to the public. The division is close to purchasing equipment and software that will be capable of digitizing microfilm records. The final cost is expected to be close to the amount appropriated.

Mr. Allred stated that he is recommending the Legislature appropriate \$25,000 in ongoing funds in FY 2007 for a five-year extension. This will include a provision for no cost increases during those five years and will also include space renovations to convert no longer used office space to storage space, adding about five percent or 2,000 square feet.

The Analyst recommends a total FY 2007 base appropriation of \$2,201,300, with \$2,092,500 from the General Fund. The Analyst further recommends the Legislature appropriate an additional \$25,000 in ongoing General Funds beginning in FY 2007 for a five-year lease extension at the State Records Center.

Rep. Fisher commended the division on the high level of efficiency she experienced as she had need of their services.

e. Division of Finance - John Reidhead, Director

As Mr. Reidhead is new to this position, Co-Chair Hickman asked him to inform the committee as to his experience in the area of finance. He then gave a brief overview of the division and stated his support for the governor's recommendation for funding. He stated the accomplishment of the division as follows:

- Processed 587,451 paychecks totaling \$1,200,000,000 in wages and benefits in FY 2005.
- Manage and operate the State's accounting system (FINET). Processed 14,600,000 records including 1,900,000 warrants and 658,000 electronic financial transactions in FY 2005.
- The FINDER program assists the collection of funds owed the State. \$10,607,000,000 was collected of debts owed the state and the IRS.

Mr. Reidhead stated that the division is accomplishing more with less. Actual division FTE have declined from 83.6 in FY 2002 to 76.9 in FY 2005. Yet the number of payment transactions, the dollar value of transactions, the number of funds to monitor, and the number of

Government Accounting Standards Board (GASB) regulations have been increasing.

Mr. Allred stated that the 2005 Legislature appropriated \$50,000 to the Division of Finance for an actuarial study to determine the state's liability for retiree health insurance. The state had never actuarially calculated the size of its obligation before. Under a new accounting rule, governments must start recognizing this long-term obligation. The Legislature also adopted H.B. 213 to corral retiree health insurance costs.

Further, Mr. Allred explained that during the 2005 Interim the actuary completed the study and reported to the Executive Appropriations Committee (EAC). He reported the state's unfunded liability at \$536,000,000, requiring an annual contribution of \$51,400,000 (at 8% interest) until 2030. To be considered "funded" the state would require legislation creating an irrevocable trust. If the state chose the "pay as you go" method rather than a flat annual contribution, the unfunded liability is \$828,000,000, beginning at \$25,000,000 in 2006 and peaking at \$71,000,000 in 2017 before gradually declining in a parabola shaped curve.

Mr. Reidhead responded to questions from committee members. Pres. Valentine stated that the same problems exist in education and higher education, as well. He reported on the litigation taking place at the present time.

The Analyst recommends a total FY 2007 base appropriation of \$11,235,900, with \$6,293,000 from the General Fund.

f. Division of Finance - Mandated - John Bennett, Project Manager, Utah Quality Growth Commission

Brian Carver, Project Manager, Governor's Office of Planning and Budget, distributed a handout showing appropriations to the LeRay McAllister Fund.

Ben Lofgren, Chair, Utah Quality Growth Commission, informed the committee of the exemplary accomplishment of this commission in handling funds.

Mr. Bennett stated that LeRay McAllister passed away in December this past year. He then reported that the LeRay McAllister Fund went from a base appropriation of \$2,750,000 to \$482,600 during budget cuts. Since then the Legislature has opted to appropriate one-time funds (\$300,000 in the 2004 General Session and \$3,000,000 in the 2005 General Session). This funding was spent on a number of projects, some of which were listed and described. Since FY 1999, state funds have been matched by other grants at a 5.5 to 1 (state funds) ratio.

Mr. Bennett requested a return to the original funding of \$2,750,000.

The Analyst recommends a total FY 2007 base appropriation of \$532,600, entirely from the General Fund. The Analyst further recommends an additional appropriation for the LeRay McAllister Fund as priorities are weighed by the Legislature. The governor recommended \$2,517,400 in one-time funds.

g. Post Conviction Indigent Defense Fund

Mr. Allred stated that the Post Conviction Indigent Defense Fund pays attorney fees for the automatic appeals for individuals convicted of capital crimes. Funds are housed in the Division of Finance for administrative purposes only. The program should be able to continue with carry-forward balances in FY 2006. After expending \$44,600 in FY 2005, the fund has \$320,000 remaining in nonlapsing balances. The Analyst is recommending a total FY 2007 appropriation of \$74,000, entirely from nonlapsing balances.

h. Judicial Conduct Commission

The Analyst reported that Colin Winchester was not able to be present. He stated that the Judicial Conduct Commission is a quasi-independent agency that investigates and resolves complaints against Utah judges. Current Expense in this budget is used to hire outside investigators and temporary employees based on case load. He is recommending a total FY 2007 appropriation of \$232,900, with \$229,200 from the General Fund and \$3,700 from carry-forward balances.

i. Division of Purchasing and General Services - Douglas Richins, Director

Mr. Richins gave a brief overview of this division and reported on an analysis conducted by a task force stating recommendations and suggestions to the division. He noted that the division manages over \$1,000,000,000 in purchasable goods and contracts between state agencies and contractors.

The Analyst discussed a cost benefit study which the Utah Policy Partnership has recommended the Division of Purchasing perform to analyze cost avoidances and cost savings that might be achieved through strategically sourced contracts, continued tracking and analysis, and enhanced technology. The study would require two half-time interns and would cost approximately \$20,000. The Analyst noted the division carried forward \$83,600 in nonlapsing funds into FY 2006 (compared to \$65,800 in FY 2005 and \$29,700 in FT 2004) and

therefore recommends the Legislature ask the division to carry out the study with its carry-forward money in FY 2006.

Mr. Allred explained that State Purchasing manages cooperative contracts that are utilized by state agencies, institutions of higher education, school districts, and local governments. Usage of the contracts is mandatory for state agencies, but voluntary for political subdivisions. Thus political subdivision usage of the contracts is a barometer of whether the contracts provide good value. Usage of state contracts by political subdivisions increased by 51 percent between FY 2002 and FY 2005, or an average of 17 percent per year.

The Analyst recommends a total FY 2007 base appropriation of \$1,479,400, with \$1,417,900 from the General Fund and the remainder from Dedicated Credits and nonlapsing balances.

Rep. Hunsaker noted the high degree of participation on the part of schools in this program.

j. Division of Human Resource Management - Jeff Herring, Executive Director

Mr. Herring discussed the changes resulting from H.B. 319, 2005 General Session, which expanded the Department of Administrative Services to include the Division of Human Resource Management, formerly a separate department. The change becomes effective on July 1, 2006.

The Analyst discussed Market Comparability Adjustments (MCA). The 2005 Legislature passed H.B. 213, "Unused Sick Leave at Retirement Amendments." In conjunction with the bill the Legislature appropriated \$24,400,000 (with \$12,300,000 from the General Fund/Uniform School Fund) for Market Comparability Adjustments. This appropriation helped alleviate a compression problem where a majority of state employees were below the midpoint of their salary range. In addition, the 2005 Legislature funded a 2.5 percent Cost of Living Adjustment (COLA). DHRM is not recommending any MCAs this year because they believe the governor's proposal of 2.5 percent COLA and 2 percent discretionary money will allow for enough movement to keep state employees and their ranges comparable to the market.

The Analyst also discussed the surge in retirements of state employees as the result of a combination of an aging workforce and H.B. 213. To date 595 people have submitted retirement papers this fiscal year, compared to 162 in the same period last year.

The Analyst recommends a total FY 2007 base appropriation of \$3,778,900, with \$3,066,900 from the general Fund and the balance from dedicated Credits and nonlapsing funds.

Randa Bezzant, GOPB Analyst, assisted in the presentation.

5. Department of Administrative Services - Internal Service Fund

a. Office of State Debt Collection (OSDC) - Robert Johnson, Acting Director

Mr. Johnson stated that he had been the acting director for only three weeks. He explained that OSDC operates differently than other Internal Service Fund agencies. Other ISFs provide general services to other state agencies; the OSDC collects past due bills for other agencies, but their funding is from debtors rather than customer agencies.

The Acting Director stated that since the OSDC is not a true Internal Service Fund, the division is considering requesting legislation to make the budget an appropriated one. Appropriations would continue to be made from Dedicated Credits as fees charged on outstanding debt. Instead of Retained Earnings, the division would maintain nonlapsing balances. He responded to questions from committee members.

The Analyst stated that he supports the change since there are no market benefits (economies of scale, price pressures, customer responses, etc.) that are the basis of ISFs. He stated that the cost to collect one dollar measures the efficiency of OSDC in collecting receivables for the state. Lower amounts mean the office is more efficient. OSDC reached its target of \$0.18 in FY 2005. This is the result of increasing collections without new FTE.

The Analyst stated the following budget recommendations for FY 2007:

- Estimated revenues of \$1,407,000
- Rates as presented separately
- 5.0 FTE
- No Authorized Capital Outlay

b. General Services - Douglas Richins, Director

Mr. Richins explained that the program includes Administration, Central Mailing, Electronic Purchasing and Print Services. He stated that in early 2005 the Utah Privatization Policy Board encouraged the division to privatize its high speed copy center function. This recommendation followed years of deficits from state-run copy centers.

The Director further stated that as a result the division issued an RFP and signed a

contract with Xerox Corporation to provide copy centers. Xerox's pricing structure is beneficial to the state and should result in savings to customer agencies. As long as Xerox maintains a satisfactory level of customer service, the contract should enable the division to recoup the negative retained earnings of \$1,400,000 while having access to the latest equipment without capital outlays.

Mr. Richins listed the following accomplishments for General Services:

- \$20,000,000 first-class letters processed annually with an annual postage savings of \$1,200,000.
- Leases and manages 1,000 copiers to state agencies.
- Implemented privatization of copy services.

Mr. Allred reported that the division's proposed rates for FY 2007 add \$0.004 per impression debt elimination fee and \$0.005 per impression contract management fee. This fee and a decrease of FTE will allow the division to recoup their losses. He also reported that the service is improving.

The Analyst's budget recommendation for FY 2007 is as follows:

- Estimated revenues of \$12,818,600
- Rates as presented separately
- 49.0 FTE (down from 58 in FY 2005)
- Authorized Capital Outlay of \$2,408,400

MOTION: Rep. Bowman moved to recess the meeting until 2:00 p.m. this afternoon. The motion passed unanimously with Pres. Valentine and Reps. Becker, Fisher and Morley absent for the vote.

Co-Chair Hickman called the meeting to order at 2:24 p.m.

c. Division of Fleet Operations - Margaret Chambers, Acting Director

Ms. Chambers stated that she has been the acting director of Fleet Operations for only one week. She discussed the duties and issues related to this division. She explained that in January the IRS increased the reimbursement rate for private vehicle mileage to 40.5 cents per mile. The Division of Finance updated its rule on July 1 to reflect the change. However, since the Division of Fleet Operations determined that the cost of operating a fleet vehicle had not

changed, Finance did not increase the rate (32 cents per mile) for an employee who chooses to drive a private vehicle when a state fleet vehicle is available.

The Analyst stated that he believes this is a sound fiscal policy in that it prevents the state from paying for a vehicle twice--once for the vehicle purchase and again for private reimbursement while the state vehicle sits unused.

The acting director listed the following accomplishment of this division as follows:

- Centralization of fleet and data reduced fleet assets over \$1,000,000 annually since 1997. Overhead necessary to manage fleet assets was reduced from \$61 to \$48 per vehicle, per month.
- Maintenance costs dropped four consecutive years from FY 2000 through FY 2003. Savings totaled \$1,062,880.
- Surplus Property - Created and implemented a new "online auction" site, allowing the public to purchase state surplus vehicles at reduced overhead costs and received the 2004 State of Utah Computer Information Systems innovation award.

Ms. Chambers also stated that the division has accomplished enhanced reporting on the web for agency information. She responded to questions from committee members.

Rep. Fisher asked about encouraging the use of alternative fuel vehicles. Ms. Chambers stated that some employees are concerned about the safety of these vehicles, but tests show that the alternative fuel vehicle is actually safer than a vehicle which is powered by gas. Some reluctance is felt because the fueling sites change and employees don't know where to fuel or how to fuel the vehicle. Federal requirements mandate a percentage of the fleet be alternative fuel vehicles.

Mr. Allred discussed the increased availability of video conferencing. He stated that in recent years the Legislature has invested heavily in the state's communication infrastructure to facilitate video conferencing. This video conferencing ability is open to all state agencies. He stated that he believes that with a little advanced planning some trips using state vehicles could be eliminated by using video conferencing instead.

The Analyst addressed the issue of the E-Waste problem. This is a mounting problem that is prompting federal action regulating its disposal. State agencies surplus a great deal of electronic equipment each year. However, discarding this equipment is becoming more difficult and more expensive. Statute encourages agencies to transfer their equipment directly to public schools,

but schools are becoming more selective because they want a common platform and quality assurance. More importantly, discarding old electronic equipment now brings liability issues. Mr. Allred stated that he recommends the Legislature consider legislation authorizing schools to re-donate surplus computer equipment to low-income families in their areas.

Regarding the average Cost Per Mile (CPM) accountability, the Analyst stated that actual average CPM is slightly higher than the target set at the beginning of the year by DFO. These increases are due primarily to fluctuations in fuel prices.

Mr. Allred's budget recommendation for FY 2007 is as follows:

- Estimated revenues of \$53,446,000
- Rates as presented separately
- 43.0 FTE
- Authorized Capital Outlay of \$13,507,300 mostly for replacement vehicles, but also to be spent, if necessary, to replace card readers and tank monitors at state fueling sites (\$212,000).

d. Division of Risk Management - Stephen Hewlett, Acting Director

Mr. Hewlett presented a brief overview of Risk Management and discussed the fire at Wasatch Jr. High and the van rollover involving Utah State University. He responded to questions from committee members. The acting director listed the accomplishments of the division as follows:

- 5,441 buildings and facilities are covered with a property value of \$18,570,000,000.
- 11,748 vehicles are covered and 90,085 employees are covered for liability.
- Liability premiums were reduced \$883,000 for FY 2005 and \$100,000 for FY 2006.

Mr. Allred stated that in July the division received the results of a claims audit conducted by a private consultant. The audit focused on the division's claims handling procedures and analyzed a sample of 115 claims. The audit found the overall program meets industry best practices and statutory requirements with an overall grade of 91%. This is a "commendable" rating that can be moved to "superior" at 95%.

Regarding retained earnings, the Analyst stated that from time to time the Legislature has appropriated retained earnings from this division for statewide purposes. In FY 2004, for

example, the Legislature appropriated \$3 million to replace the state's financial accounting system (FINET). In the 2005 General Session the Legislature appropriated \$4.5 million to the General Fund. More funds may be available in the 2006 General Session. The Analyst will work with the division to identify an amount that can be safely transferred while maintaining a sound reserve.

Mr. Allred also stated that in FY 2005 the division's average rates were discounted 54 percent compared to commercial market rates. The division's target is to maintain at least a 50 percent discount. The Analyst's budget recommendation for FY 2007 is as follows:

- Estimated revenues of \$34,561,100
- Rates as presented separately
- 25.0 FTE
- Authorized Capital Outlay of \$100,000 for the possibility of unforeseen capital expenditures such as computer hardware or database replacement

e Facilities Management - Bruce Whittington, Assistant Director

Mr. Whittington presented a brief overview and expressed concerns in two areas: increased operating costs and energy-reduction measures. He stated that new buildings will come on line in FY 2007 (Tooele Courts and Ogden Regional Center #2) that will require DFCM to hire up to three FTE and acquire two additional vehicles. The assistant director responded to questions from committee members.

Mr. Allred stated that he recommends the Legislature approve the increases. Costs will be recovered through the rates. In addition, the Analyst recommends the Legislature continue authorizing the intent language with the provision that DFCM notify the DFAS co-chairs before adding any vehicles or FTE.

Regarding per square foot costs, Mr. Allred stated that at an average of \$3.95 per square foot in FY 2005, DFCM maintenance rates were about 57 percent of the rates paid by federal agencies and are lower than the national private and local private rates. He also stated that DFCM's growth in FTE and revenue (compared to FY 2001) has been lower than its growth in square footage managed.

Mr. Whittington stated that DFCM is requesting rate changes for ten buildings in FY 2007. The primary reason for increases is utility rates and to reduce deficit retained earnings. One of the rate changes is a \$10,000 per year decrease. The total impact of the rate changes is

\$187,000 per year. DFCM accounts for revenues, expenses and retained earnings on each building it maintains. The assistant director responded to questions regarding the state buying in volume and said the division is working on the possibility of building a state energy source. Dr. Laura Nelson in the Governor's office is working on this possibility.

Mr. Stepan commended Mr. Whittington on his excellent work on maintenance.

The Analyst's budget recommendation for FY 2007 is as follows:

- Estimated revenues of \$20,511,600
- Rates as presented separately
- 119.0 FTE
- An additional three FTE and two vehicles to maintain new buildings in Tooele and Ogden
- Authorized Capital Outlay of \$51,500. Funds will be used, if needed, to replace mowers, mules, and other equipment that may unexpectedly break down.

6. Career Service Review Board (CSRB) - Robert W. Thompson, Administrator

Mr. Thompson presented an overview of the Board and stated that it is new to the Capital Facilities and Administrative Services Appropriations Subcommittee. The CSRB administers the state's grievance and appeals process. This process insures state employees a fair and impartial hearing. Mr. Thompson responded to questions from committee members.

The Analyst recommends a total FY 2007 base appropriation of \$189,800. The Analyst further recommends an additional appropriation of \$15,000 to cover increased costs of statutorily required hearings.

7. Department of Technology Services - Steve Fletcher, Chief Information Officer

Dan Frei, Governor's Office of Planning and Budget (GOPB) distributed a handout presenting the Governor's Budget Recommendations regarding Technology Services. He explained how the figures in the budget were determined, and he stated that the GOPB endorsed Mr. Fletcher and his proposal.

Mr. Fletcher explained that he has taken a different approach to consolidation, choosing instead to move all state government IT employees into the new department at once, regardless of their function or product. As such, the appropriation passed to implement H.B. 109, 2005 GS is not

sufficient. He stated that he understands there will be no new funding available and that the department must find efficiencies to cover costs. He plans to put in place a hiring freeze and absorb the loss of employees.

Mr. Fletcher and Mr. Frei responded to questions from committee members. Mr. Fletcher stated that because of the disruptive progress of the transition, it will be a challenge to maintain current operations and may take longer to gain efficiencies than time will allow.

Jonathan Ball, Technology Analyst, stated that when this transition is completed, it will be the right model; it will provide the services needed. He further stated that the CIO has requested amendments to DTS' current year appropriation embodied in *Department of Technology Services Personnel Transfer - Supplemental Appropriation* (House Bill 49, 2006 General Session). H.B. 49 will facilitate a wholesale consolidation of IT employees in fiscal year 2006 by authorizing 702 full-time equivalent employees and \$30 million in revenue for the new DTS internal service fund.

Regarding across-the-board salary increases, Mr. Ball further stated that DTS' enabling legislation states that all new positions created within the department are career service exempt. At the same time, any career employee moved into DTS retains his or her career service status. However, the DTS legislation allows the CIO to offer career employees a conversion from protected status to exempt status. In exchange for such conversion, personnel rules dictate that employees shall receive salary increase of between 2.75% and 8.25%.

The Technology Analyst explained that the CIO plans to offer a conversion, and corresponding 8.25% salary increase, to all career DTS employees. The Legislature has not provided an appropriation to cover the salary increase--which could run as much as \$4.5 million. The CIO plans to use cost savings that result from consolidation to pay for the salary increase. However, the CIO has not articulated the sources of those savings nor a plan for achieving them.

Mr. Ball stated that a major factor motivating the Legislature to create a new Department of Technology Services was a desire for reform of the existing Division of Information Technology Services (ITS). The Legislature envisioned a transition process under which products and services would be defined prior to transition. While the CIO has chosen not to define products and services prior to consolidating employees, the definition of such is essential to ITS reform.

Mr. Ball further explained the increased administrative overhead. He stated that in order to better manage projects and properly allocate costs, the Department of Technology Services plans to acquire an Information Technology Governance software package. The entire

package, as proposed in DTS' budget request, would cost \$2 million one-time and \$200,000 per year ongoing. While purchasing an IT Governance System may be necessary to efficiently manage DTS, doing so as one of DTS' first acts runs the risk of creating a perception that the overhead costs will increase rather than decrease in a consolidated enterprise. The Legislature has not provided an appropriation for the IT Governance system, and DTS plans to pay for it using internal service fund resources.

The Co-Chairs requested Mr. Fletcher provide them with a concrete revenue stream. He agreed to provide it to them.

8. Debt Service

Mr. Allred stated that since the Legislature has reduced bonding for buildings in the past year, and assuming the Legislature will not bond for buildings in the 2006 General Session, the required debt service is decreasing. He explained that in FY 2007 the required debt service for highway *principal* will increase by \$6,216,400. However, the required amount for highway *interest* will decrease by \$4,633,000. The base budget includes an appropriation of \$17,164,300 from the Uniform School Fund to service a portion of the debt for higher education buildings. Technically this appropriation should be from Income Tax revenues.

The Analyst recommends that sources of one-time or ongoing funds be applied to the capital budget to continue the PAYGo plan. In addition, Utah maintains an "AAA" rating of credit worthiness. Utah's track record showing its willingness to manage its debt seems to be as important as its ability to pay its debts.

The Analyst recommends a total FY 2007 Debt Service base appropriation of \$240,513,400. This represents the ongoing portion of the FY 2006 appropriation.

The Analyst also recommends a reallocation of \$6,151,800 in FY 2006 General Funds to the Capital Developments line item, a reallocation of \$5,500,000 in FY 2007 General Funds to the Capital Developments line item, and an increased appropriation of \$1,583,400 from the Centennial Highway Fund to the Debt Service line item. The Analyst further recommends switching \$17,164,300 currently appropriated from the Uniform School Fund to Income Tax revenues. None of these recommendations have yet been built into the budget pending legislative approval.

9. Capital Improvements Budget - Keith Stepan, Director, DFCM

Mr. Ken Nye, Government Affairs, distributed a handout showing State-Funded Capital Development Projects. Mr. Stepan responded to questions from committee members.

The Analyst explained that Capital Improvements was formerly known as "alteration, repair and improvements" or AR&I. This budget covers improvement projects costing less than \$1.5 million on the state's existing fixed capital assets. Further, the statutorily required amount of funding for FY 2007 is \$62,921,300, which is \$6,759,700 more than the FY 2006 appropriation.

Mr. Allred stated that the Executive Appropriations Committee has already recognized the increase of \$6,759,700 as a mandate and authorized it to be placed in the FY 2007 Base Appropriations Bill.

The Analyst's budget recommendation is for a total FY 2007 Capital Improvement budget of \$62,921,300. This includes the FY 2006 base budget of \$56,161,300 plus an additional \$6,759,700 from income tax revenues.

10. Capitol Preservation Board - David Hart, Executive Director

Mr. Hart reported that the Capitol renovation is on schedule and on budget. There have been one-half of one percent change orders. Maintenance will increase to perhaps double after the renovation is complete. The Director stated that there is a possibility that there will be a need for more than \$50,000,000 this year because the contractor is ahead of schedule. Seventeen workshops were held to discuss costs enabling the contractor to purchase supplies in advance and avoiding increases. In addition, the Board has minimized unforeseen problems by investigating the construction completely before beginning. The construction on the seismic retrofitting is 60 percent complete. The Discovery Channel is interested in doing a 15-minute documentary on the retrofitting of the Capitol. Other states have expressed an interest in this revolutionary project.

Regarding moving administration costs from the project, Mr. Hart stated his support for the Analyst's recommendation that beginning in FY 2006, \$173,500 on ongoing funds be appropriated to the CPB Office staff for salaries and benefits.

Mr. Hart and Mr. Todd Wardrop, Fiscal Analyst, reviewed the Capitol Opening Ceremonies Preparations which will include printed materials, a satellite "traveling" exhibit, and the publication of a 'keepsake type' commemorative book. These three objectives could be funded or may be realized with donated funds.

Mr. Allred recommends a total FY 2007 appropriation of \$2,764,300, with \$2,358,400 from the General Fund, for the Capitol Preservation Board. The Analyst further recommends an additional appropriation of \$173,500 to move staff costs away from the construction budget, and \$13,000 for a new copier.

MOTION: Rep. Bowman moved to adjourn. The motion passed unanimously with Pres. Valentine and Reps. Becker, S. Clark, Harper and Morley absent for the vote.

The meeting was adjourned at 4:15 p.m. by Co-Chair Hickman.

The minutes were reported by Bonnie Brinton.

Sen. Bill Hickman
Committee Co-Chair

Rep. D. Gregg Buxton
Committee Co-Chair